

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type [] City [] Township [] Village [x] Other		Local Government Name St. Joseph County Road Commission	County St. Joseph
Audit Date 12/31/04	Opinion Date 2/25/05	Date Accountant Report Submitted to State: April 15, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

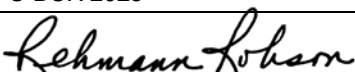
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | | | |
|-------|-----|-------|----|---|
| [] | Yes | [x] | No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| [] | Yes | [x] | No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| [x] | Yes | [] | No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| [] | Yes | [x] | No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| [] | Yes | [x] | No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| [] | Yes | [x] | No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| [] | Yes | [x] | No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| [] | Yes | [x] | No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| [] | Yes | [x] | No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

**ST. JOSEPH COUNTY ROAD
COMMISSION**

(a Component Unit of St. Joseph County)

Centreville, Michigan

FINANCIAL STATEMENTS

For The Year Ended December 31, 2004



REHMANN ROBSON

Certified Public Accountants

ST. JOSEPH COUNTY ROAD COMMISSION
(a Component Unit of St. Joseph County)

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

February 25, 2005

Members of the Board of County
Road Commissioners
County of St. Joseph, Michigan
Centreville, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **ST. JOSEPH COUNTY ROAD COMMISSION**, a component unit of St. Joseph County, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the St. Joseph County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **St. Joseph County Road Commission** as of December 31, 2004, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2005, on our consideration of the **St. Joseph County Road Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **St. Joseph County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the St. Joseph County Road Commission, we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2004.

Financial Highlights

The St. Joseph County Road Commission met the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34 beginning with fiscal year end December 31, 2003.

Net assets may, over time, enable governmental agencies to determine their overall fiscal position. As shown on the St. Joseph County Road Commission Net Asset chart below, the Road Commission's assets exceeded liabilities by \$28,417,223 at the end of the fiscal year.

When comparing the fiscal year to the previous year, net assets have increased by \$1,511,326. This included an increase of \$786,004 in infrastructure assets, and an increase of \$442,735 in unrestricted net assets.

At the end of the current fiscal period, unreserved fund balance was \$1,105,379, or 15.52% of total general fund expenditures.

The Road Commission's debt decreased by approximately \$297,929 during the current fiscal year; no new debt was issued.

Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. Supplementary information is also provided for additional informational purposes.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements

The statement of net assets presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of the Commission's overall fiscal position.

The statement of activities presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The Commission is principally supported by state shared revenues (operating grants). The governmental activities of the Commission include providing construction, repair, maintenance, and snow removal of roads within St. Joseph County.

The government-wide financial statements include only the Commission itself. The Commission has no legally separate component units for which the Commission is financial accountable. In this report, financial information for the Commission is reported separately from the financial information presented for Monroe County, which reports the Commission as a component unit.

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements. A *fund* is grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Commission is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statement's it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Commission adopts an annual appropriated budget for its fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 10-12 of this report.

The Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the commission's financial statements. The notes to the financial statements can be found on pages 13-21 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Condensed Statement of Net Assets	<u>2004</u>	<u>2003</u>
Current Assets	\$ 2,776,374	\$ 2,316,566
Capital Assets	<u>27,067,635</u>	<u>26,281,631</u>
Total Assets	<u>29,844,009</u>	<u>28,598,197</u>
Long-term liabilities outstanding	372,651	670,580
Other liabilities	<u>1,054,135</u>	<u>1,021,720</u>
Total liabilities	<u>1,426,786</u>	<u>1,692,300</u>
Net assets:		
Invested in capital assets	26,825,782	25,737,191
Restricted	0	0
Unrestricted	<u>1,591,441</u>	<u>1,168,706</u>
Total net assets	<u>\$ 28,417,223</u>	<u>\$ 26,905,897</u>

Condensed Statement of Activities

Revenue		
State Aid	\$ 5,420,558	\$ 4,842,374
Federal sources	570,955	429,921
Local and other sources	<u>1,547,061</u>	<u>1,412,249</u>
Total revenue	<u>7,538,574</u>	<u>6,684,544</u>
Expenses		
Public Works	6,012,856	5,130,226
Debt Service - Interest only	<u>14,392</u>	<u>27,905</u>
Total expenses	<u>6,027,248</u>	<u>5,158,131</u>
Change in Net Assets	1,511,326	1,526,413
Net assets:		
Beginning of year	<u>26,905,897</u>	<u>25,379,484</u>
End of year	<u>\$ 28,417,223</u>	<u>\$ 26,905,897</u>

Capital Assets and Debt Administration

Capital Assets

Major capital asset events during the current fiscal year included the following:

- Road equipment additions of \$154,316
- Infrastructure assets reflect construction and improvements to the primary and local road system

St. Joseph County Road Commission Capital Assets (net of depreciation)

	<u>2004</u>	<u>2003</u>
Land and improvements	\$ 7,309,815	\$ 6,941,922
Buildings	606,211	620,612
Road Equipment	939,230	1,290,992
Shop Equipment	38,365	40,237
Office Equipment	60,338	75,832
Engineering Equipment	19,436	20,465
Yard & Storage Equipment	0	0
Depletable Assets	58,272	72,773
Infrastructure		
Roads and Bridges	<u>18,035,968</u>	<u>17,218,798</u>
Total	<u>\$ 27,067,635</u>	<u>\$ 26,281,631</u>

Long-term Debt	<u>2004</u>	<u>2003</u>
Lease Purchase Agreements	\$ 241,853	\$ 544,440
Compensated absences	<u>130,798</u>	<u>126,140</u>
Total	<u>\$ 372,651</u>	<u>\$ 670,580</u>

Additional information on the Road Commission's long-term debt can be found in Note 4 on pages 18-19 of this report.

Economic Factors and Road Fund Budgetary Highlights

The Road Commission amended its 2004 budget during the year to reflect the allocation between Primary and Local Road Projects. Revenues were adjusted to reflect income, which was generated from a public auction of used equipment and an increase in Michigan Transportation Funds (MTF), due to a one-time increase in revenue generated from license registration fees.

During 2004, the Road Commission received approximately \$328,000 in additional MTF revenue. During fiscal year, 2005, we anticipate receiving approximately \$150,000 less in MTF funds, due to the expected reduction in license registration fees and a change in the rate for Urban mileage. The Board of County Road Commissioners has set capital improvement spending at \$500,000 for 2005.

In 2004, St. Joseph County voters passed a ten (10) year renewal of a countywide road millage of 1 mill, which is designated for Local Road Maintenance, which in 2005, will generate approximately \$950,000, and represents approximately 15% of the Road Commission's total operating revenue.

Requests for Information

This financial report is designed to provide a general overview of Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the St. Joseph County Road Commission, 20914 M-86, Centreville, MI 49032.

BASIC FINANCIAL STATEMENTS

ST. JOSEPH COUNTY ROAD COMMISSION

STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

DECEMBER 31, 2004

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash and interest bearing deposits	\$ 207,018	\$ -	\$ 207,018
Accounts receivable			
Motor vehicle highway funds	793,993	-	793,993
Due on county road agreements	202,364	-	202,364
Taxes	947,963		947,963
Other	4,745	-	4,745
Inventories			
Road materials	502,350	-	502,350
Equipment material and parts	117,941	-	117,941
Capital assets			
Assets not being depreciated	-	7,309,815	7,309,815
Assets being depreciated, net	-	19,757,820	19,757,820
Total assets	<u>\$ 2,776,374</u>	<u>27,067,635</u>	<u>\$ 29,844,009</u>
LIABILITIES			
Accounts payable	\$ 62,539	-	\$ 62,539
Accrued liabilities	33,202	3,431	36,633
Deferred revenue - property taxes	947,963	-	947,963
Performance bonds held	7,000	-	7,000
Long-term liabilities			
Due within one year	-	159,150	159,150
Due after one year	-	213,501	213,501
Total liabilities	<u>1,050,704</u>	<u>376,082</u>	<u>1,426,786</u>
Fund Balance/Net Assets			
Fund balance			
Reserved for inventories	620,291	(620,291)	-
Unreserved, undesignated	1,105,379	(1,105,379)	-
Total fund balance	<u>1,725,670</u>	<u>(1,725,670)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 2,776,374</u>		
Net Assets:			
Invested in capital assets, net of related debt		26,825,782	26,825,782
Unrestricted		1,591,441	1,591,441
Total net assets		<u>\$ 28,417,223</u>	<u>\$ 28,417,223</u>

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

Reconciliation of General Fund Balance Sheet to Statement of Net Assets

DECEMBER 31, 2004

Fund balances - General Fund	\$ 1,725,670
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	27,067,635
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Installment lease purchase agreements payable	(241,853)
Certain liabilities, such as compensated absences and claims payable, are not due and payable in the current period and therefore are not reported in the funds:	
Deduct - accrued interest payable	(3,431)
Deduct - compensated absences payable	(130,798)
Net assets of governmental activities	<u><u>\$ 28,417,223</u></u>

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2004

	General Operating Fund	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES			
Current:			
Public works	\$ 6,794,202	\$ (781,346)	\$ 6,012,856
Debt service:			
Principal	302,587	(302,587)	-
Interest	24,389	(9,997)	14,392
TOTAL EXPENDITURES/EXPENSES	7,121,178	(1,093,930)	6,027,248
PROGRAM REVENUES			
Charges for services	612,335	-	612,335
Operating grants and contributions	5,450,558	-	5,450,558
Capital grants and contributions	570,955	-	570,955
TOTAL PROGRAM REVENUES	6,633,848	-	6,633,848
NET PROGRAM REVENUES			606,600
GENERAL REVENUES			
Property taxes	863,529	-	863,529
Unrestricted grants and contributions	31,783	-	31,783
Interest earned	6,557	-	6,557
Property rentals	2,857	-	2,857
TOTAL GENERAL REVENUES	904,726	-	904,726
NET CHANGE IN FUND BALANCE	417,396	(417,396)	
CHANGE IN NET ASSETS		1,511,326	1,511,326
FUND BALANCE/NET ASSETS,			
Beginning of year	1,308,274	25,597,623	26,905,897
FUND BALANCE/NET ASSETS, End of year	\$ 1,725,670	26,691,553	\$ 28,417,223

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2004

Net change in fund balances - General Fund	\$ 417,396
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	369,221
Add - Infrastructure additions	2,313,383
Deduct - depreciation expense	(1,891,941)

Installment lease contract proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the funds but not in the statement of activities:

Lease purchase installment principal payments	302,587
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Interest expense is recorded in the statement of activities when a liability is incurred; they are reported in the funds only when payment is due	9,997
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Equipment retirements	(4,659)
Increase in compensated absences	(4,658)

Change in net assets of governmental activities	<u>\$ 1,511,326</u>
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The accompanying notes are an integral part of these financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE - OVER (UNDER)
REVENUE				
Permits	\$ 9,000	\$ 13,600	\$ 14,184	\$ 584
Intergovernmental:				
Federal sources	100,000	395,320	570,955	175,635
State sources	5,489,000	5,692,080	5,420,558	(271,522)
Local sources	353,000	394,000	535,426	141,426
Charges for services	1,500	3,200	3,088	(112)
Interest and rentals	10,500	9,245	9,414	169
Taxes	892,000	894,700	895,312	612
Transfer from primary government	30,000	30,000	30,000	-
Other	-	53,000	59,637	6,637
TOTAL REVENUE	6,885,000	7,485,145	7,538,574	53,429
EXPENDITURES				
Current:				
Construction	-	-	140,000	140,000
Primary heavy maintenance	1,250,000	1,615,000	1,546,733	(68,267)
Local heavy maintenance	1,302,000	1,070,100	804,088	(266,012)
Primary maintenance	905,000	1,309,500	1,295,163	(14,337)
Local maintenance	2,703,000	3,134,000	3,007,968	(126,032)
Equipment - net	-	(24,400)	1,432	25,832
Administrative - net	380,000	380,000	394,769	14,769
Other	-	-	2,033	2,033
Capital outlay - net	-	(363,000)	(397,984)	(34,984)
Debt service	327,000	327,000	326,976	(24)
TOTAL EXPENDITURES	6,867,000	7,448,200	7,121,178	(327,022)
NET CHANGE IN FUND BALANCE	18,000	36,945	417,396	380,451
FUND BALANCE, Beginning of year	1,308,274	1,308,274	1,308,274	-
FUND BALANCE, End of year	\$ 1,326,274	\$ 1,345,219	\$ 1,725,670	\$ 380,451

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the St. Joseph County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Reporting Entity

The St. Joseph County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of St. Joseph, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”, for determining the reporting entity includes having significant financial or operational relationships. Based on the above criteria, these financial statements present the St. Joseph County Road Commission, a discretely presented component unit of St. Joseph County, and include the Road Commission General Operating Fund.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Road Commission’s General Operating Fund.

Basis of Presentation

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

As permitted by GASB Statement No. 34, the Road Commission uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. The general fund, the sole major governmental fund, is reported as a separate column in the aforementioned financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

Budgetary Data

The governmental fund is under formal budgetary control. The budget shown in the financial statements was adopted on a basis consistent with generally accepted accounting principles (GAAP), which is the modified accrual basis used to reflect actual results, and consists only of those amounts contained in the formal budget as originally adopted or as amended by the Board of County Road Commissioners. The budget for the General Operating Fund is adopted on a functional basis, and in accordance with the Uniform Budgeting and Accounting Act as prescribed by the State of Michigan. Variances at the functional level of control are disclosed in the accompanying *Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual*.

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Inventory

Inventory consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first-in, first-out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

Fund Balance Reservations

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Capital assets are defined by the Road Commission as assets with an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (general fund balance sheet and statement of general fund revenues, expenditures and changes in fund balance) and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

	<u>Years</u>
Buildings and improvements	40
Equipment	5 to 8
Infrastructure	8 to 50

Deferred Compensation Plan

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Road Commission's financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

Under existing general Road Commission rules and regulations and its Labor Agreement, all regular full-time employees are eligible for paid leave in varying amounts based on number of years of service completed by each employee as of the preceding calendar year.

2. CASH DEPOSITS AND INVESTMENTS

Deposits

At December 31, 2004, the amount of the Road Commission's deposits were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$ -	\$ 57,836
Held by St. Joseph County *		
Cash on deposit	<u>207,018</u>	<u>204,050</u>
	<u>\$ 207,018</u>	<u>\$ 261,886</u>

* Deposits of the Road Commission held by St. Joseph County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance January 1, 2004	Additions	Deductions	Balance December 31, 2004
Capital assets not being depreciated:				
Land	\$ 218,750	\$ 3,046	\$ -	\$ 221,796
Infrastructure land improvements	6,723,172	366,175	1,328	7,088,019
Total capital assets not being depreciated	6,941,922	369,221	1,328	7,309,815
Capital assets being depreciated:				
Buildings and improvements	1,089,690	15,822	-	1,105,512
Road equipment	6,763,410	156,290	502,633	6,417,067
Shop equipment	265,028	9,555	4,742	269,841
Office equipment	148,151	3,912	8,439	143,624
Engineers' equipment	57,181	3,159	-	60,340
Yard and storage	24,355	-	-	24,355
Depleteable assets	130,309	-	-	130,309
Infrastructure	34,524,119	2,124,645	8,446	36,640,318
Total capital assets being depreciated	43,002,243	2,313,383	524,260	44,791,366
Accumulated depreciation and depletion:				
Buildings and improvements	469,078	30,223	-	499,301
Equipment	5,830,599	539,742	512,483	5,857,858
Depleteable assets	57,537	14,500	-	72,037
Infrastructure	17,305,320	1,307,476	8,446	18,604,350
Total accumulated depreciation and depletion	23,662,534	1,891,941	520,929	25,033,546
Total capital assets being depreciated - net	19,339,709	421,442	3,331	19,757,820
Governmental activities capital assets - net	\$ 26,281,631	\$ 790,663	\$ 4,659	\$ 27,067,635

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT

Long-term debt of the Road Commission consists of the following:

	Balance January 1, 2004	Increases	Reductions	Balance December 31, 2004	Due Within One Year
Land contract and installment lease purchase agreements	\$ 544,440	\$ -	\$ 302,587	\$ 241,853	\$ 128,150
Compensated absences	126,140	4,658	-	130,798	31,000
Totals	\$ 670,580	\$ 4,658	\$ 302,587	\$ 372,651	\$ 159,150

Capital Leases

The Road Commission has the following remaining installment lease contracts, each of which is secured by the related equipment, as follows:

<u>Equipment</u>	<u>Annual Installments Including Interest</u>	<u>Interest Rate</u>	<u>Due</u>
1. Wise International Trucks (5)	\$63,542	4.42%	October 31, 2005
2. Caterpillar Motor Grader	\$29,360	4.75%	March 1, 2006
3. MSG International Trucks (4)	\$45,248	3.73%	June 15, 2007

The annual requirements to pay principal and interest on debt outstanding at December 31, 2004, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 128,150	\$ 10,000	\$ 138,150
2006	70,081	4,527	74,608
2007	43,622	1,627	45,249
Total	\$ 241,853	\$ 16,154	\$ 258,007

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Accrued Sick and Vacation

After the first six months of employment, employees earn one vacation day per month of service. In addition, one floating holiday is available every January 1st. Seniority days are based on employees' length of service, up to a maximum of 18 days for 40 years of service for all employees. Also, one personal day is granted each year, which cannot be carried over. Up to 15 accrued vacation and seniority days may be carried over and used in the succeeding year.

Sick leave is earned at the rate of 6 days per year and up to 60 days may be accumulated.

The employees' vacation pay, no greater than 80 hours, and sick pay are payable to employees who resign with proper notice, retire, or die.

5. PROPERTY TAXES

In December 2003, St. Joseph County levied 1 mill of real and personal property tax to townships within the County for the benefit of County roads. The total amount of the levy was \$857,285. Property taxes become an enforceable lien on property as of December 1. Taxes are levied on December 1, and are payable by February 14. The townships within the County bill and collect property taxes for the County, and the taxes are substantially collected by March 1st.

6. PENSION PLAN

The Road Commission established the St. Joseph County Road Commission Money Purchase Pension Plan, a single-employer defined contribution plan, on October 15, 1981. The plan, established to meet the requirements of Act No. 249, Public Acts of 1943, covers substantially all employees of the Road Commission. The Road Commission is required to contribute 6% of covered payroll at the end of each plan year. Employees do not contribute to the plan. Fifth Third Bank, Kalamazoo, Michigan is the trustee and administers the pension plan.

Plan provisions and contribution requirements are established and may be amended by the Board of County Road Commissioners.

To be eligible to participate in the plan, employees are required to have completed 12 consecutive months of service during which they have at least 1,000 hours of service.

Upon termination of employment for reasons other than retirement, total and permanent disability, or death, a participant is entitled to receive 100% of the participant's amount representing the vested percentage of the balance in the participant's employer contribution account at the date of termination of employment.

The Road Commission's contributions for each employee (and interest allocated to the employee's account) are partially vested after three (3) years of continuous service and fully vested after seven (7) years of continuous service.

For the plan year ended October 31, 2004, the Road Commission contributed \$94,143 (representing 6% of covered payroll) to the plan.

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

7. RISK MANAGEMENT

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool “Pool” established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (inter local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The St. Joseph County Road Commission pays an annual premium to the Pool for general liability, excess liability, errors and omissions, auto liability, auto comprehensive, auto collision, equipment and building and contents.

The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for workers’ compensation as a member of the County Road Association Self Insurance Fund. The estimated amount of the IBNR, or “Incurred But Not Reported” claims associated with the self-insurance arrangements is not considered to be material at December 31, 2004.

The Road Commission continues to carry commercial insurance for all other risks of loss, including life insurance, health program, data processing, commercial crime and boiler and machinery. Settled claims have not exceeded insurance coverage for the last three years.

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

8. CONTINGENCIES

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

9. SINGLE AUDIT

Governmental and certain other entities which expend \$500,000 or more of direct federal dollars are subject to a single audit in accordance with the OMB Circular A-133. The Road Commission expended \$570,955 of federal dollars which were passed through and administered by the Michigan Department of Transportation. The passed through monies will be included in the State of Michigan's single audit.

* * * * *

OPERATING FUND SCHEDULES

ST. JOSEPH COUNTY ROAD COMMISSION

SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2004

	DESIGNATED		UNDESIGNATED	
	PRIMARY	LOCAL	COUNTY	
	ROAD FUND	ROAD FUND	ROAD FUND	TOTAL
REVENUE				
Permits	\$ -	\$ -	\$ 14,184	\$ 14,184
Intergovernmental:				
Federal sources	439,740	131,215	-	570,955
State sources	3,682,123	1,738,435	-	5,420,558
Local sources	-	535,427	-	535,427
Charges for services	-	-	3,088	3,088
Interest and rentals	1,723	3,099	4,592	9,414
Taxes				
County wide millage	-	863,529	-	863,529
State revenue sharing	-	31,783	-	31,783
Transfer from primary government	-	30,000	-	30,000
Other	18,888	149	40,599	59,636
TOTAL REVENUE	4,142,474	3,333,637	62,463	7,538,574
EXPENDITURES				
Construction	-	140,000	-	140,000
Heavy maintenance	1,546,733	804,088	-	2,350,821
Maintenance	1,295,163	3,007,968	-	4,303,131
Equipment - net	364	833	235	1,432
Administrative - net	142,490	252,279	-	394,769
Other	820	1,213	-	2,033
Capital outlay - net	(32,670)	-	(365,314)	(397,984)
Debt principal	-	-	302,587	302,587
Interest and fiscal charges	-	-	24,389	24,389
TOTAL EXPENDITURES	2,952,900	4,206,381	(38,103)	7,121,178
REVENUE OVER (UNDER)				
EXPENDITURES	1,189,574	(872,744)	100,566	417,396
OTHER FINANCING SOURCES (USES)				
Internal transfers in	-	1,015,189	-	1,015,189
Internal transfers out	(1,015,189)	-	-	(1,015,189)
TOTAL OTHER FINANCING SOURCES (USES)	(1,015,189)	1,015,189	-	-
NET CHANGE IN FUND BALANCES	174,385	142,445	100,566	417,396
FUND BALANCE, Beginning of year	343,822	618,191	346,261	1,308,274
FUND BALANCE, End of year	\$ 518,207	\$ 760,636	\$ 446,827	\$ 1,725,670

ST. JOSEPH COUNTY ROAD COMMISSION

DETAIL SCHEDULE OF REVENUE BUDGET AND ACTUAL GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	AMENDED BUDGET	ACTUAL	VARIANCE - OVER (UNDER)
Permits	\$ 13,600	\$ 14,184	\$ 584
Federal sources:			
STP and D Funds	149,000	439,740	290,740
Bridge	246,320	131,215	(115,105)
Total Federal Sources	395,320	570,955	175,635
State sources:			
Motor Vehicle Highway Funds - Act 51:			
Engineering	10,000	10,000	-
Primary roads allocation	3,200,000	3,206,538	6,538
Local roads allocation	1,600,000	1,629,624	29,624
Primary urban roads	165,000	177,425	12,425
Local urban roads	73,500	80,851	7,351
State Critical Bridge	61,580	24,603	(36,977)
Economic Development Fund	582,000	291,517	(290,483)
Total State Sources	5,692,080	5,420,558	(271,522)
Local sources:			
Township and developer contributions	394,000	535,426	141,426
Total Local Sources	394,000	535,426	141,426
Charges for services:			
Salvage sales	3,200	3,088	(112)
	3,200	3,088	(112)
Interest and rentals	9,245	9,414	169
Taxes:			
County wide millage	863,000	863,529	529
State revenue sharing	31,700	31,783	83
Total Taxes	894,700	895,312	612
Transfer from primary government	30,000	30,000	-
Other:			
Gain (loss) on equipment disposal	53,000	54,528	1,528
Other	-	5,109	5,109
Total Other Revenue	53,000	59,637	6,637
TOTAL REVENUE	\$ 7,485,145	\$ 7,538,574	\$ 53,429

ST. JOSEPH COUNTY ROAD COMMISSION

GENERAL OPERATING FUND DETAIL SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2004

	AMENDED BUDGET	ACTUAL	VARIANCE - OVER (UNDER)
Construction	\$ -	\$ 140,000	\$ 140,000
Heavy maintenance:			
Primary roads and structures	1,615,000	1,546,733	(68,267)
Local roads and structures	1,070,100	804,088	(266,012)
Total Heavy Maintenance	2,685,100	2,350,821	(334,279)
Maintenance:			
Primary roads and structures, winter and traffic control	1,309,500	1,295,163	(14,337)
Local roads and structures, winter and traffic control	3,134,000	3,007,968	(126,032)
Total Maintenance	4,443,500	4,303,131	(140,369)
Equipment:			
Direct	986,100	986,799	699
Indirect	449,500	470,067	20,567
Operating	240,000	241,699	1,699
Less: Equipment rental	(1,700,000)	(1,697,133)	2,867
Total Equipment, net	(24,400)	1,432	25,832
Administrative:			
Administration	380,000	394,769	14,769
Capital outlay:			
Buildings and equipment	220,000	189,810	(30,190)
Less - Depreciation	(580,000)	(584,464)	(4,464)
- Retirements	(3,000)	(3,330)	(330)
Total Capital Outlay, net	(363,000)	(397,984)	(34,984)
Other	-	2,033	2,033
Debt service:			
Principal retirement	302,600	302,587	(13)
Interest and fiscal charges	24,400	24,389	(11)
Total Debt Service	327,000	326,976	(24)
TOTAL EXPENDITURES	\$ 7,448,200	\$ 7,121,178	\$ (327,022)

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

 an independent member of
BAKER TILLY
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

February 25, 2005

Members of the Board of County
Road Commissioners
County of St. Joseph, Michigan
Centreville, Michigan

We have audited the financial statements of the St. Joseph County Road Commission, a component unit of St. Joseph County, as of and for the year ended December 31, 2004, and have issued our report thereon dated February 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the St. Joseph County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the St. Joseph County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of St. Joseph County Road Commission in a separate letter dated February 25, 2005.

This report is intended solely for the information and use of management, the Board of County Road Commissioners, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive style with a large, stylized 'L' and 'J'.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



February 25, 2005

The Board of County Road Commissioners
of St. Joseph County, Michigan
Centreville, Michigan

We have audited the basic financial statements of ***ST. JOSEPH COUNTY ROAD COMMISSION, a component unit of St. Joseph County***, as of and for the year ended December 31, 2004, and have issued our report thereon dated February 25, 2005.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated January 18, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of St. Joseph County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of St. Joseph County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by St. Joseph County Road Commission are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended December 31, 2004. We noted no transactions entered into by St. Joseph County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

We noted no transactions entered into by St. Joseph County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on St. Joseph County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on St. Joseph County Road Commission.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as St. Joseph County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum is intended for the use of the Board of Road Commissioners and management of St. Joseph County Road Commission, a component unit of St. Joseph County and respective federal and state grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohorn". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

ST. JOSEPH COUNTY ROAD COMMISSION

COMMENTS

For the Year Ended December 31, 2004

This memorandum does not affect our report dated February 25, 2005, on the basic financial statements of St. Joseph County Road Commission.

Financial Policies and Procedures Manual

We noted that financial procedures are performed on the basis of various internal memorandums, excerpts from Board resolutions, and other guidance, for which not all has been reduced to writing. Presently, there is no central source that incorporates all of these policies together in one document. This situation is similar to other smaller organizations, including other road commissions.

We recommend that the Road Commission consider preparing and adopting a Financial Policies and Procedures Manual in order to enhance internal controls within the organization, and to provide for uniform procedures in implementing Board policies. Contents of the Manual could include such things as fund reserve policy, travel policies, fraud policy, procurement and purchasing policy, and many other items that can be tailored to the needs of the Road Commission.

* * * * *